Testimony of the Honorable Nancy Johnson
United States International Trade Commission
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I want to thank the commissioners for holding this important hearing and soliciting the views of so many interested parties. I am convinced that the steel tariffs are an important contributing factor in the recent precipitous decline in the health of the manufacturing sector. If you examine leading economic indicators with respect to the manufacturing sector, the picture that they paint is bleak. According to the Bureau of Labor Statistics, we have lost 2 million manufacturing jobs over the last two years. In my home state of Connecticut, the University of Connecticut estimates that we have lost 26,000 manufacturing jobs over the past 28 months – a stunning figure that represents nearly 10 percent of the manufacturing work force. The pain is especially acute among small and medium sized manufacturers. Many of these businesses have shuttered their doors and will not return.

As you are well aware, the president's decision to implement a Section 201 safeguard action for the domestic steel industry was predicated on a laudable desire to shield our steel from an onslaught of foreign competition. The temporary safeguards were intended to give the industry time to consolidate and become more efficient. It is arguable whether the tariff has succeeded in prompting a much needed modernization and reorganization of the steel industry or whether it is merely provided an illusory respite from the harsh realities of the global marketplace. What cannot be disputed, however, is the serious and manifest impact the tariffs have had on the steel consumers.

When we talk about steel consumers it is important to remember that we are not talking about large firms like General Motors and Boeing exclusively. According to the Small Business Administration, nearly 98 percent of steel using firms employ less than 500 workers. While large firms have the reserves and internal flexibility to shrug off the short-term effects of the tariffs, small and medium sized firms lack the resources to weather the storm. In fact, the difference in market clout between small suppliers and their larger customers has made the situation untenable. Large companies have sufficient market power to refuse to accept price increases from smaller steel consuming manufacturers. Caught between a rock and a hard place, the small companies are forced to buy expensive steel and then forced to absorb the additional costs. For companies that are operating on a very narrow profit margin, the cost of a 30 percent steel tariff is too much to bear. In my frequent tours around my district I have heard many sobering stories from small manufacturers about the effect the steel tariff is having on their business. Many of them have told me that the tariff has virtually wiped out their profit margin. These companies cannot continue to operate on cost.

I am a proud supporter of free trade. I have been a proponent of expanding international market access for American goods for my entire legislative careers because I have faith in a truism about trade: free trade creates jobs. Yet I am also aware that free trade above all else is a fool's errand. I agree with the proponents of the steel tariffs that we have a national interest in preserving our industrial base. Where I disagree with them is in their methods. In an era of global production networks, a tariff on raw materials creates a domain of high prices in one place while leaving untouched the global market for finished goods that contain that material. In practice this means that the domestic steel company that makes component parts for lawn mowers, for example, will be at a distinct disadvantage with a foreign company that makes the same parts. Faced with a choice of buying from an American supplier at a higher price and passing the cost along to the consumer or having it taken out of their profits, many large companies are opting to cancel contracts and find foreign-based suppliers. And, unlike the tariff, these business decisions are not temporary. The foreign supplier will likely supplant the domestic company permanently. The damage done to our second and third tier manufacturers by the increase in steel costs and their consequent inability to compete with foreign suppliers compounds the damage done by our weak economy and cheaper labor available overseas, particularly in China.

The widespread harm caused by the 201 decision in my opinion, far outweighs the specific benefit accorded to a few surviving steel companies and their workers. Forcing manufacturers to endure the pain of a tariff for a problem not of their own making is unfair. More to the point, it masks the real issue which is the antiquated structure of our integrated steel industry. From their failure to invest in modernizing technology to their disastrous decision to avoid restructuring their enormous retirement obligations, the steel industry is reaping what they have sowed.

In the 21st century marketplace there are fundamental, immutable facts that will not change. Labor will always be cheaper overseas, particularly semi-skilled labor, so we can ill afford to make the raw material more expensive. It is clear to me that if we continue to artificially raise the price of steel, then we will continue to hemorrhage jobs in the manufacturing sector, jobs that will never return. Rather than pursuing policies that will hasten their departure, we should be working together to ensure their survival. I urge you to recommend eliminating the tariff before we do mortal damage to our manufacturing base.

I thank you for the opportunity to testify and I welcome your questions or comments.